

10 Financial Proposal

10.1 Introduction

The Commonwealth acknowledges the essential need to re-solution and reengineer its enterprise processes and systems. Staff at all levels have identified inefficiencies, redundancies, and risks inherent in the current environment and the operational benefits and cost savings that would result from the implementation of a broad array of new, enterprise applications. It is generally understood by all parties that such a project, while ultimately providing significant benefits to the Commonwealth, would be quite costly.

At the same time, the Commonwealth faces significant pressure to give funding priority in a time of limited resources to critical and pressing public/social needs in a variety of areas such as education, transportation, and health care. And the political climate is not generally conducive to an increase in general revenues or bonded indebtedness to finance back-office systems.

The Commonwealth's development of the PPEA legislation and the subsequent willingness to utilize it to creatively address the funding issue for technology projects are a testimony to Virginia's dynamic approach to management. The intent of the PPEA is to create mutually beneficial partnerships between the government and the private sector to quickly implement important projects, in a creatively financed manner.

CGI-AMS is pleased to present a financial proposal that will permit the Commonwealth to meet each of these guidelines and objectives.

10.2 Contrasts in Self-Funded Models

Typical Self-Funding Model. In order to bridge the gap between need and available funds, vendors have created a variety of "self-funded" models. Perhaps the most common self-funded approach justifies the funds outlay for projects against the potential cost savings to be realized later. When used for technology implementations, this approach is high risk for reasons like these:

- Projected savings used to justify a project never materialize. This is especially the case when savings are projected on reduced effort by fractional percentages of staff, or on staff reductions generally.
- Projected savings are to occur so far into the future that it is impossible to generate a defensible return on investment (ROI) analysis or to even link the savings with the original outlays. Also, financing charges must be included to reflect the cost of money over an extended period, increasing the overall price paid.
- Savings metrics are difficult and/or expensive to quantify. In this case, governments elect to simply use an ROI model to justify a project but do not link actual achievement of savings to vendor payment, in a true risk/reward sharing arrangement.

In some cases, payments on these projects may be tied to the achievement of some benefit stream, rather than to the standard appropriations-driven model. In the interim, though, the supplier will be paid by arranging for some variant of traditional debt financing, such as applying interest costs to be paid or even loaning the money to the government.

Our Approach: Based on Real Dollars to the Commonwealth. In contrast, Team CGI-AMS has developed a funding solution that is based on generating incremental real dollars to fund enterprise-wide reengineering and re-solutioning. We recognize and agree that projects such as this must generate a wide range of cost saving and improved service benefits to the Commonwealth—and we estimate \$125 million in efficiencies and cost savings over seven years, based on current spending levels. Savings are a critical outcome of the VEAA Initiative, and we propose that as operational savings accrue, the Commonwealth direct those as it sees fit.

From a financing perspective, we understand that projects are paid for with hard dollars and not qualitative benefits such as “improved access to information” or “consistent application of best practices.” Thus, true financial savings come from a limited number of sources: incremental new revenues, elimination (as opposed to potential redirection) of current costs, or reduction in prices paid for goods or services.

Our unique partnership approach follows four basic principles:

- Finance the project with real savings and incremental revenues, not merely justify it with potential savings.
- Apply an integrated, enterprise-wide approach that identifies and successfully executes projects to generate benefits in Phase 1, in order to provide seed funding for additional cost savings projects.
- Be willing to invest in the Commonwealth in a risk and benefits sharing framework.
- Design solutions and schedules with the Commonwealth for maximum risk mitigation for both partners.

A partnership philosophy and an innovative approach are consistent with successful programs that CGI-AMS currently has operational with TAX and DGS.

Benefits to the Commonwealth. The Team CGI-AMS unique funding model creates significant benefits for the Commonwealth.

- Completely funded with increased revenues or actually accrued savings in alignment with the intent of the PPEA and this procurement. No financing is based upon potential cost avoidance.
- Eliminates financing costs.
- Provides for continuous replenishment of a Funding Pool.
- Does not require reductions in the Commonwealth workforce to create benefits—particularly in the near future.
- Creates early, easily quantifiable benefits, both in terms of revenue generated and projects implemented.
- Permits extensive flexibility for scheduling projects.

- Consistent with good public policy and Virginia's position of financial leadership.

The combination of these factors continues the solid foundation for the long-term partnership currently enjoyed between the Commonwealth and CGI-AMS.

10.3 Summary of Our Approach and Financial Plan

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We have estimated a savings of \$125 million in efficiencies and savings, and we think that savings will be concrete and demonstrable. At the same time, we acknowledge that broad cost savings are challenging to quantify in most governments. Currently available Commonwealth information is somewhat limited, and the level of cost savings will also be subject to Commonwealth decisions regarding actual deployment of staff subsequent to reengineering activities.

However, in other public sector organizations, similar projects have yielded cost savings benefits measured in the tens of millions of dollars. Exhibit 10-5 below identifies several of the major cost savings areas as identified by other states.

Exhibit 10-1 Representative VEAA Initiative Cost Savings Opportunities

| VEAA Initiative Reengineered Process | Potential Savings |
|---|--|
| Single Window Government | \$12M annually in New Brunswick, Canada |
| Elimination of maintenance fees and tech support costs on nearly 200 financial and HR systems in the Commonwealth | Over \$1.3M annually in maintenance fees; and reduction in technical support |
| Establishment of a Consolidated Collection Center | Redirection of up to 50% of staff currently performing collections |
| Automated Time and Attendance data capture | \$12M annually in Oregon |
| Employee HR self-service | \$2M annually in Oregon |
| Integrating data capture between accounting, Procurement, and Fixed Assets | \$4.5M annually in Ohio |
| Eliminating dual entry/reconciliation with redundant payment systems | \$9M annually in Ohio |
| Strategic sourcing | \$4.2B of spend still to be analyzed |
| Facilities Management | 12% reduction of overall operating and maintenance costs in Utah |
| Fleet and Equipment Management | Up to \$11M annually through a shared solution and reengineered processes |

10.4 Methodologies

10.4.1 Incremental Revenue Measurement Methodology

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10.4.2 Cost Savings Measurement Methodology

We are very confident that our solutions will create efficiencies and, ultimately, cost savings compared to current spending levels. At the same time, we recognize the Commonwealth's desire to ground the financing of this project in solid economic fundamentals. And we know that in other states, many of the cost savings identified to justify a project, particularly savings based upon eliminating the work of fractions of employees, do not always come to fruition.

In order to defensibly estimate future cost savings from a particular project, one must possess an accurate benchmark of the current costs associated with a particular process. During the Due Diligence process, a decision was reached early on to measure costs at levels higher than any particular activity within a business function that we believe will yield savings. For example, we (and Commonwealth staff) believe that eliminating redundant data entry within Human Resources Management can save significant employee time. However, because we did not collect costs associated with data entry by personnel category by system, we believe it could be inaccurate to claim precise dollar savings will result from reengineering this process.

Thus, for purposes of estimating cost savings in this proposal, we document any assumptions we are making about cost savings. If we believe there are cost savings available, but that we need much more information to provide a fairly accurate projection, we say so. In those cases where we believe that we have acquired sufficient data to make a defensible estimate, we provide the estimate's details.

During actual project work, we will work with the Commonwealth to define a rigorous approach for defining and measuring cost savings to be used as a part of project financing. We believe this approach of using only real savings is in alignment with the Commonwealth's objectives for financing this effort.

10.4.3 Fund Capture Methodology

Team CGI-AMS views the existing fund methodology, the Virginia Technology Infrastructure Fund, already at work within the Commonwealth as the model for capture, recognition, and utilization of both incremental revenue and realized cost savings associated with this Initiative. We have the distinction of having successfully executed one of the only benefits funded IT initiatives in the Commonwealth, the TAX project. Elements of the benefits funding model from TAX can serve as a starting point for the VEAA Initiative. Here we have the benefit that there has already been created by statute a fund to capture incremental revenues and savings and spend those monies on IT infrastructure projects, the Virginia Technology Infrastructure Fund.

10.4.4 Project Cost Methodology

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10.4.5 Financing Cost Methodology

Material redacted for proprietary content.

10.5 Global Assumptions

Material redacted for proprietary content.

10.6 VEAA Initiative Component Financial Plans and Supporting Assumptions

Material redacted for proprietary content.

10.7 Additional Financial Considerations

Material redacted for proprietary content.

10.8 Commonwealth Self-Funded Option

Material redacted for proprietary content.